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SUBJECT: CNDD PLANS TO FIX FOREIGN EXCHANGE RATE, OVERVALUE CURRENCY

¶1. (SBU) According to several independent sources, the CNDD-led Government of Guinea is planning to fix the exchange rate of the Guinean franc (GNF) to 3500 to the dollar. The current exchange rate has been hovering between 4900 to 4975 since the December coup. The President of the Guinean Bureau of Exchange told Pol LES that key government ministries will meet the afternoon of June 5 at the People's Palace to "finalize" the plan. He expected the new exchange rate to go into effect within a few days.

¶2. (SBU) However, during a donor meeting on assistance yesterday with the Minister of Finance, the UNHCR representative asked the Minister about the new policy. The Minister reportedly refused to comment, saying that he had "no official information" on that decision.

¶3. (SBU) In a related decision, the CNDD closed down all currency transfer operations (such as Western Union) in Guinea until further notice. The President of the Guinean Bureau of Exchange explained that CNDD President Dadis is insisting that these companies accept Guinean francs rather than foreign currency.

COMMENT

¶4. (SBU) If the policy goes through, there may be a short term boost to the Guinean economy through the increase in relative purchasing power, but a fixed, artificially inflated exchange rate is likely to hurt the country in the long run. This is particularly true in light of the global decline in bauxite prices since an overvalued currency against the dollar ultimately increases the cost of exports. When bauxite prices start to increase again, Guinea will be at a significant disadvantage. There does not seem to be any discussion of how the decision would affect other foreign exchange, such as the GNF versus the Euro. Contacts at the Ministry of Finance and the Central Bank seem largely unaware of the details of the decision, which suggests that the policy may be a CNDD initiative. END COMMENT.
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